

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 PA-02 PRS-01 /112 W
-----080379 181043Z /15

P R 180940Z AUG 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 0313
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUG 11-17, 1977

REF: TOKYO 12359 AND 12449

1. SUMMARY: LIKELIHOOD OF A CONTRA-CYCLICAL SUPPLEMENTAL
BUDGET GROWS STRONGER AS PRIME MINISTER ALL BUT COMMITS
HIMSELF TO FURTHER STIMULUS MEASURES. PACKAGE STILL UNDER
DISCUSSION BUT YEN ONE TRILLION SUPPLEMENTAL WIDELY EXPECTED
AS ID DISCOUNT RATE CUT. TRADE AND CURRENT ACCOUNT SURPLUS
WIDENED AGAIN IN JULY. SECOND QUARTER MONEY SUPPLY GROWTH (M-2)
A LITTLE SLOWER THAN FIRST QUARTER. ATTITUDE TOWARD YEN
FOREIGN BOND ISSUES IN JAPAN RELAXED. END SUMMARY.

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2. REMARKS BY PRIME MINISTER FUKUDA THIS WEEK GAVE ANOTHER
BOOST TO SPECULATION ABOUT A LATE AUGUST SUPPLEMENTARY
BUDGET. WHILE TRAVELING IN SEASIA THE PRIME MINISTER
IS REPORTED TO HAVE REFERRED TO THE POSSIBILITY OF QUOTE
LARGE-SCALE BUSINESS MEASURES UNQUOTE AND ALSO
TO AN EASING OF FINANCING CONDITIONS.
THIS LATTER STATEMENT HAS BEEN TAKEN TO MEAN FUKUDA WOULD

CALL FOR ANOTHER REDUCTION IN THE DISCOUNT RATE.

3. WITH THE GOVT NOW APPARENTLY DECIDED TO ANNOUNCE STIMULATIVE SUPPLEMENTAL MEASURES LATER THIS MONTH, ATTENTION HAS SHIFTED TO THE LIKELY MAGNITUDE AND DETAILS OF SUCH A SUPPLEMENTAL. PRESS REPORTS SAY OFFICIALS CLOSE TO PRIME MINISTER FUKUDA HAVE HINTED AT A PACKAGE SLIGHTLY IN EXCESS OF YEN 1,000 BILLION (ABOUT \$3.8 BILLION EQUIVALENT), ALTHOUGH FIGURES AS HIGH AS YEN 1,300 BILLION AND AS LOW AS 500 BILLION HAVE ALSO REPORTEDLY BEEN MENTIONED BY SOME OFFICIALS ECONOMIC PLANNING AGENCY (EPA) OFFICIALS THIS WEEK ARE REPORTED AS BELIEVING THAT WITH NO FURTHER STIMULUS GROWTH IN FY 77 WOULD PROBABLY TURN OUT TO BE 5.5 PERCENT TO 6 PERCENT AND THAT THE CURRENT ACCOUNT WOULD RUN A SUBSTANTIAL SURPLUS. THEY REPORTEDLY FAVOR A SUPPLEMENTAL IN EXCESS OF YEN 1,000 BILLION. A YEN 1,000 BILLION PACKAGE WOULD BE SOMEWHAT LOWER THAN THE YEN 1,500 BILLION TO YEN 2,000 BILLION THAT BUSINESS AND INDUSTRIAL LEADERS HAVE RECENTLY URGED AND CONSIDERABLY LOWER THAN THE JAPAN ECONOMIC RESEARCH CENTER (JERC) ESTIMATE THAT A YEN 3,000 BILLION REFLATIONARY PACKAGE IS NEEDED (ALTHOUGH JERC ARGUED THAT THE NET EFFECT ON THE FISCAL DEFICIT WOULD BE ONLY YEN 1,700 BILLION BECAUSE OF THE RESULTANT FASTER GROWTH).

4. PRESS STORIES GENERALLY AGREE THAT THE SUPPLEMENTAL BUDGET WILL BE STRUCTURED TO MINIMIZE THE REQUIREMENT FOR UNCLASSIFIED

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FLOATING ADDITIONAL GOVERNMENT BONDS. THUS THE PROGRAM IS LIKELY TO FAVOR FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) OUTLAYS OVER GENERAL ACCOUNT BUDGET EXPENDITURES BECAUSE THE BLUK OF FLIP ACTIVITIES CAN BE FINANCED BY USING FUNDS FROM POSTAL SAVINGS AND PENSION PROGRAMS ADMINISTERED BY THE MINISTRY OF FINANCE (ALONG WITH SOME GOVT GUARANTEED BONDS). THIS (ALONG WITH A FEW OTHER ADJUSTMENTS) WOULD ALSO THE GOVT TO FINANCE THE PROGRAM WITHOUT BREACHING THE MOF'S STANDARD THAT NO MORE THAN 30 PERCENT OF GOVT GENERAL ACCOUNT EXPENDITURE BE FINANCED THROUGH NATIONAL BONDS. HOWEVER, THERE ARE ALSO HINTS THAT THE 30 PERCENT LIMIT MIGHT BE INTERPRETED TO COVER A PERIOD OF MORE THAN TWELVE MONTHS IF NECESSARY TO ACCOMMODATE DEMANDS FOR STRONGER MEASURES THIS FY.

5. IN ADDITION TO THE FISCAL MOVES, THE RIME MINISTER HAS REPEATEDLY BEEN INTERPRETED AS HINTING HE WILL CALL FOR THE DISCOUNT RATE TO BE REDUCED FURTHER FROM ITS PRESENT 5 PERCENT LEVEL. SPECULATION CENTES ON A CUT OF 0.5 PERCENTAGE POINTS, ALTHOUGH THERE IS ALSO TALK OF CUTS UP TO A FULL PERCENTAGE POINT. FUKUDA IS EXPECTED TO MEET WITH BANK OF JAPAN GOVERNOR MORINAGA NEXT WEEK TO COORDINATE VIEWS ON INTEREST RATE

POLICY.

6. IT IS EXPECTED THAT GOVT AND LIBERAL DEMOCRATIC PARTY OFFICIALS WILL MEET ON AUGUST 19 AFTER THE PRIME MINISTER RETURNS HOME AND AGAIN ON AUGUST 22 TO DISCUSS THE NEED FOR STIMULUS. HOWEVER FINAL DECISIONS ON THE NEW MEASURES MAY BE DELAYED UNTIL END-AUGUST, TO PROVIDE A CHANCE TO SEE LATER NUMBERS ON ECONOMIC PERFORMANCE.

7. PAYMENTS DATA RELEASED THIS WEEK SHOW A FURTHER WIDENING OF THE TRADE AND CURRENT ACCOUNT SURPLUSES, AS REPORTED IN REFTELS. THE JULY CURRENT ACCOUNT SURPLUS OF \$1.2 BILLION (S.A) BROUGHT THE CUMULATIVE SURPLUS FOR THE FIRST SEVEN MONTHS OF CY 1977 TO \$6.3 BILLION (S.A.) IN
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COMMENTING ON THE LATEST BALANCE OF PAYMENTS NUMBERS, A SPOKESMAN FOR THE MOF SAID THE TRADE SURPLUS WAS UNLIKELY TO DECLINE TO ANY APPRECIABLE EXTENT IN THE NEXT TWO TO THREE MONTHS.

8. GROWTH IN MONEY SUPPLY, SEASONALLY ADJUSTED, SLOWED FURTHER DURING THE SECOND QUARTER.

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NARROWLY DEFINED

MONEY SUPPLY, M-1, DECLINED BY 1.1 PERCENT DURING THE SECOND QUARTER WHEREAS BROADLY DEFINED MONEY SUPPLY, M-2, INCREASED BY 2.3 PERCENT, A LITTLE LESS THAN THE 2.5 PERCENT FIRST QUARTER INCREASE. GROWTH IN BANK LOANS AND DISCOUNTS ALSO SLOWED SLIGHTLY IN SECOND QUARTER, INCREASING BY 2.2 PERCENT VERSUS A 2.3 PERCENT INCREASE IN THE FIRST QUARTER.

QUARTERLY DEVELOPMENT OF MONEY SUPPLY, S.A.

(PCT CHANGE FROM PRIOR QUARTER BASED ON MONTHLY AVERAGE)

BANK LOANS AND

	M-1	M-2	DISCOUNTS
1976: APR-JUN	2.3	3.3	2.6
JUL-SEP	3.6	3.3	2.6
OCT-DEC	2.8	2.8	2.9
1977: JAN-MAR	0.4	2.5	2.3
APR-JUN -	1.1	2.3	2.2

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FOLLOWING ARE ADDITIONAL DATA ON MONETARY AGGREGATES AS WELL AS CONTRIBUTING FACTORS TO CHANGES IN MONEY SUPPLY (M-2, N.S.A.) FOR JUNE. JUNE MONTHLY DEVELOPMENT OF MONEY SUPPLY WAS TRANSMITTED IN TOKYO 11760, PARA 7.

MONEY AND CREDIT, SEASONALLY ADJUSTED
(BIL YEN; PCT CHANGE FROM PRIOR MO IN PARENS)

	M-1 (JEI 123)	M-2 (JEI 126)	LOANS AND DISCOUNTS (JEI 133)
APR	52,353 (MIN 3.0)	142,570 (0.1)	100,689 (0.6)
MAY	52,349 (0)	144,061 (1.0)	101,273 (0.6)
JUN	53,696 (2.6)	145,904 (1.3)	102,166 (0.9)

CHANGES IN M-2

	APRIL	MAY	JUNE
(MONTHLY PERCENT CHANGE AT ANNUAL RATE, I.E. TIMES 12)			

M-2, S.A.	1.2	12.6	15.4
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M-2, N.S.A.	5.9	7.7	26.5
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(FACTORS CONTRIBUTING TO CHANGES IN M-2, N.S.A.)

CREDITS TO:

PRIVATE SECTOR	MIN 4.0	3.9	15.6
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NATL GOVT	11.3	5.7	14.9
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LOCAL GOVTS	MIN 1.4	5.4	MIN 1.7
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FOREIGN ASSETS, NET	0.9	1.0	2.4
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OTHERS	MIN 0.9	MIN 8.3	MIN 4.7
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TOTAL ALL FACTORS	5.9	7.7	26.5
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9. NEW CAR REGISTRATIONS, SEASONALLY ADJUSTED, DROPPED

IN JULY AFTER TERMPOARY RECOVERY IN JUNE. JULY AUTO SALES
VOLUME WAS BELOW THE SECOND QUARTER'S AVERAGE BY 0.9 PERCENT
AND ON YEAR-OVER-YEAR COMPARISON DOWN 10 PERCENT.
NEW CAR REGISTRATIONS, SEASONALLY ADJUSTED

	THOUSANDS CARS	PERCENT CHANGE FROM PRIOR MO
MAY	194.7	MIN 11.1

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JUN	217.7	11.8
JUL	208.5	MIN 4.3

10. MOF IS REPORTED TO HAVE LIBRALIZED FURTHER ITS
POLICIES TOWARD YEN BOND ISSUES BY FOREIGNERS. MOF HAS
DECIDED TO AUTHORIZE THREE SUCH ISSUES OF YEN BONDS IN
BOTH OCTOBER AND NOVEMBER. THIS COMPARES WITH THE PREVIOUS
SCHEDULING OF ONE PER MONTH. IN OCTOBER, SPANISH AND MEXICAN
GOVERNMENT ISSUES OF YEN 10-15 BILLION EACH ARE PLANNED
AS WELL AS A EUROPEAN INVESTMENT BANK YEN 25 BILLION ISSUE.
FOR NOVEMBER THE GOVERNMENTS OF BRAZIL, AUSTRAIA AND
NEW ZEALAND ARE SCHEDULED TO ISSUE BONDS FOR YEN 10-15
BILLION, YEN 15 BILLION, AND YEN 20-25 BILLION, RESPECTIVELY.

11. ANK OF TOKYO WILL BE LEAD BANK IN \$57 MIL PACKAGE OF LOANS TO
THAILAND FOR WATER POWER DEVELOPMENT CONSORTIUM OF JAPANESE
AND AMERICAN BANKS IN CONJUNCTION WITH WORLD BANK, NIHON KEIZAI
REPORTZD RECENTLY. THE WORLD BANK WILL PROVIDE \$37 MIL OF THE
PACKAGE AND THE AMERICAN AND JAPANESE BANKS WILL FINANCE THE
REMAINING \$20 MIL. THE PRIVATE BANKS' PORTION WILL HAVE A SEVEN-
AND-A-HALF-YEAR REPAYMENT PERIOD AND FLOATING INTEREST RATES
BASED ON EURO-DOL RATES PLUS CERTAIN FIXED MARGIN.
SIGNING IS EXPECTED AROUND EARLY SEPTEMBER.
MANSFIELD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 18-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TOKYO12619
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770298-0028
Format: TEL
From: TOKYO USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770846/aaaabmyw.tel
Line Count: 261
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6c2e0358-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 TOKYO 12359
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1555506
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUG 11-17, 1977
TAGS: EFIN, JA
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/6c2e0358-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009